Dominion Foundries and Steel, Limited
Annual Report 1972

file

Sixty years of growth

The First Sixty Years

Dominion Foundries and Steel, Limited is a fully integrated steel producer, with major operating facilities and head office located in Hamilton, Ontario. The Canadian owned and managed company ranks second in production, sales and net income in Canada's steel industry.

Dofasco's origins date back to 1912 when Clifton W. Sherman founded Dominion Steel Castings Company Limited, a small steel foundry in Hamilton, Ontario. During the first year, the foundry employed 250 men and 3,621 tons of castings were shipped. Today, Dofasco's steelmaking operations employ 8,300 and have an annual output of 2.8 million ingot tons per year.

The first twenty years of the Company's history were not without difficult times as the firm struggled to gain a foothold in the steel industry.

The beginning of Dofasco's growth was in the early 30's. A universal plate mill was converted to a hot strip mill. This was followed by the installation of a cold rolling mill, and in 1935, Dofasco produced the first tinplate made entirely in Canada.

The early 50's marked a major turning point. In 1951, the first blast furnace was installed and Dofasco became a fully integrated steel producer. Three years later, the Company introduced oxygen steelmaking to North America – a process that has been adopted by virtually all major steel producers on the continent.

Further expansion more than doubled output during the 60's, while greater integration of operations was achieved through ownership interests acquired in iron ore mines. In this period, Dofasco also purchased National Steel Car – a major Canadian producer of railway rolling stock.

Throughout Dofasco's history, the foundry has played, and continues to play, an integral role in the Company's operations.

Over the years, Dofasco has developed many firsts in the Canadian steel industry. Among these were leadership in hot mill rolling, steel plate manufacture, hot dipped tinplate, electric melting furnaces, cold rolled steel, continuous annealing, electrolytic tinplate, continuous galvanized steel and electrical steel. In 1938, the Company introduced profit sharing – a major advance in industrial relations in Canadian industry.

Each of these developments played its part in creating the Dofasco of today – an industrial complex that bears little resemblance to the small foundry launched in 1912. However, the Company's spirit of growth and leadership remains unchanged. It welcomes the challenges of the future – the next sixty years.

Highlights

	1972	1971	Increase (Decrease)
Production of ingots and castings — net tons*	2,773	2,468	12.4%
Sales*	$443,775	$380,723	16.6%
Net income*	$ 36,123	$ 28,019	28.9%
Net income — per common share	$ 2.25	$ 1.74	
Net income — percent of sales	8.1%	7.4%	
Net income — percent of average common shareholders' equity	11.8%	9.7%	
Dividends declared — total*	$ 15,066	$ 15,039	.2%
Dividends declared			
— per common share	$ .90	$ .90	—
— per preferred share	$ 4.75	$ 4.75	—
Capital expenditures — manufacturing*	$ 28,907	$ 52,029	(44.4)%
Expenditures on mining properties*	$ 2,570	$ 32,916	(92.2)%
Depreciation*	$ 32,922	$ 28,764	14.5 %
Average number of employees	9,700	9,300	4.3 %
Number of holders of common shares	16,629	17,958	(7.4)%

*In thousands.

On pourra se procurer le texte français de ce rapport annuel en s'adressant au secrétariat de la Compagnie, case postale 460, Hamilton, Ontario.

The Annual General Meeting of Shareholders will be held at the offices of the Company in Hamilton, Ontario, on Friday, April 27, 1973 at 12:00 o'clock noon.

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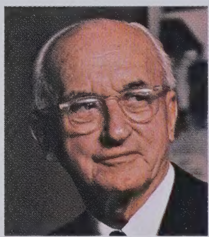
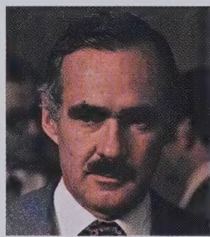
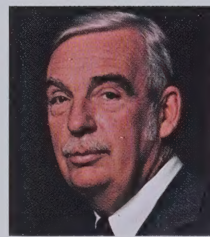
Directors

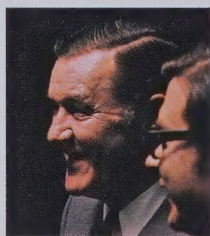

Harry N. Bawden


S. Robert Blair

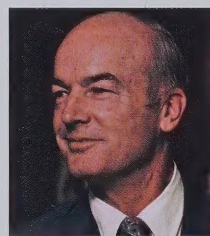

George H. Blumenauer

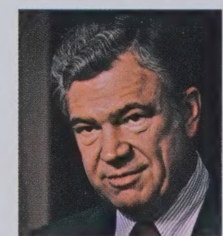

R. Ross Craig

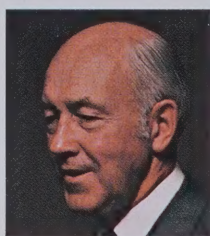

Dr. John R. Evans


William C. Hassel


Howard J. Lang


John D. Leitch


James L. Lewtas, Q.C.


W. Harold Rea


John G. Sheppard


Frank H. Sherman

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Loudonville, N.Y.

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Director, Dominion Securities Corporation Limited, Toronto

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Thomas Van Zuiden
Treasurer

Dorothy M. Cauley
Secretary

Alan D. Laing
Assistant Comptroller

H. Graham Wilson
Assistant Secretary

President's Report

1972 – Record Sales and Production

I am pleased to report that 1972 was a record year for both sales and production, with a substantial improvement in net income. These results were due largely to the improved performance of new facilities which went into production during 1971. The majority of these new installations operated at higher levels throughout 1972, and reached their peak in the fourth quarter. Other factors affecting our year's performance are dealt with in detail in the text of the report.

1973 Outlook – Excellent

We expect 1973 ingot production to surpass the record 2.8 million-ton level of 1972. The improved performance of our new facilities comes at a time when Canadian demand for steel is expanding rapidly and places Dofasco in a favourable position to share in this larger market.

We do not expect increased pressure from imports of steel into Canada during 1973 since, at present, global demand for steel is strong. The steelmaking nations are busy supplying their own domestic markets and are not as actively seeking to expand their trade in world markets.

In the past year, the United States government has been giving serious consideration to the Canada/United States auto trade pact. If major adverse revisions are made to this agreement, they could have serious effects on the Canadian steel industry.

Planning

In 1972, the Company acquired an additional 36 acres adjacent to our Bay Front in Hamilton through a land exchange agreement with The Hamilton Harbour Commissioners. It is planned that this area will be used for pollution abatement facilities, raw material storage and additional steelmaking and processing equipment. We now have enough property in Hamilton to permit doubling of our steelmaking and finishing capacity. A sketch outlining the lands is shown on page 18.

Government and Business

Some government involvement in business is necessary and desirable. There is no question about the positive value of legislation that is intended to ensure safe products and cure social ills. However, there is always the risk of assigning high priorities to items which represent a relatively small part of an overall problem. The proposed solution to the littering of the countryside is one example of this.

The Ontario government is currently proposing to ban or place a deposit on or tax non-returnable containers, including beverage cans, in an effort to achieve the desirable objectives of helping to control waste, preserve non-renewable resources and help control litter.

Banning, placing a high deposit or taxing non-returnables would not decrease the solid waste problem. Indeed, more returnables would be purchased and these heavier containers would likely increase the ultimate solid waste load.

The can does not have to deplete non-renewable resources – it can be recycled. Dofasco has joined with other companies to form the Metal Container Manufacturers' Advisory Council (MCMAC). The group is presently installing magnetic separation equipment in Hamilton's new solid waste reduction facilities. Ferrous metals, including all cans, not just beverage containers, will be separated from the garbage stream, detinned and sold to Dofasco and other steel mills for scrap.

Litter is a social problem. Since the can represents only 3% of litter, a ban would not make a significant impact on the overall problem of cleaning up the countryside. What is necessary is public education and stiffer penalties for littering. Last summer, MCMAC sponsored ecological patrols, as well as a massive advertising program to persuade people not to litter.

We are concerned about a ban or restriction on non-returnables that would result in the loss of existing and future jobs without significantly controlling solid wastes, reducing litter or conserving non-renewable resources.

In short, the government's desirable objectives of better waste management, resource preservation and litter control can be met by recycling, public education and stiffer penalties for littering without imposing restrictive legislation on containers.

Considerable effort has been and is still being made by us toward having federal tax reform legislation amended to permit the same tax treatment of profit sharing, both in the form of pensions and deferred plans, as was available before the reform legislation was introduced.

We believe that profit sharing leads to improved employee-management relations and that in our society, this is a most desirable goal. Therefore, we have objected

to the new regulations that would withdraw a right our employees have had since 1938 and prohibit, on retirement, lump-sum withdrawals of employees' profit sharing credits built up in the Fund after 1971. Under the regulations of the Department of National Revenue, these credits would have to be taken in the form of an annuity.

We endorse our employees' belief that they should continue to have the option of deciding on an annuity or a lump-sum withdrawal on retirement and that the three-year income tax averaging formerly available should be continued for lump-sum withdrawals.

The Environment – Continuing Commitment

We are firmly committed to the task of preserving our environment. Last year was a year of achievement in this respect with further improvements introduced in air and water quality. Details of this are dealt with in the text of the report.

Company Organization

The Company's Product Development Department activities have been expanded. The department will operate as an engineering service to our customers and, in so doing, will assist in the development of new ideas and new products. W. J. Stewart, formerly Vice President of Product Quality and Specialty Steels has assumed additional responsibilities in this area as Vice President, Product Quality and Development.

During 1972, Mr. D. O. Davis, Vice President of Engineering, retired after 32 years with the Company. We know his retirement will not be an idle one and we wish him every success.

The Board of Directors

We were saddened in July of 1972 by the passing of Daniel F. Hassel, "Dofasco Dan". Mr. Hassel joined Dofasco in 1912 – the Company's founding year. Throughout its history, he played an important role in its growth and development, serving as Open Hearth Superintendent, Vice President – Works Manager, and Vice President – Industrial Relations, a position he held until his death. Since 1955, Mr. Hassel served as a member of Dofasco's Board of Directors.

In October, 1972, Mr. S. Robert Blair, President and Chief Executive Officer of The Alberta Gas Trunk Line Company Limited, was elected to the Board of Directors. Mr. Blair serves as a director of several other companies and technical associations.

During the sixty years of our history, we have been fortunate in having dedicated employees who have contributed significantly to our success. The year 1972 was no exception and on behalf of the Board of Directors, our thanks for a job well done.

Hamilton, Ontario
March 29, 1973

F. H. Sherman
President

The Year in Review

Operating Results

Strong demand for Dofasco's flat-rolled steel products, coupled with **record production of 2.8 million ingot tons, produced a 17% increase in sales to a record of $444 million.** Net income of $36 million was 29% higher than the previous year. **Earnings per common share increased from $1.74 in 1971 to $2.25 in 1972.**

The key factor in the 12% increase in production was the completion of a major expansion program in 1971. With the added capacity and the new production units brought up to good performance levels late in 1971, we were able to take advantage of an expanding demand for our major product lines. The **new facilities improved in performance** as the year progressed and resulted in daily production records in the steelmaking, hot rolling and certain finishing divisions. The Company purchased some semi-finished steel in order to meet demand during the first part of the year. Profit margins on products manufactured from this material were significantly lower, due to their high cost.

The improvement in volume resulted in **significantly higher earnings from steelmaking** operations. Adjustments in selling prices for major product lines were made to offset substantial cost increases. Tinplate prices were changed in April and cold rolled, galvanized, electrical steels and plate prices were adjusted in the last quarter. Average employment costs were up 10% for the year 1972 compared to 1971, due to increases in wages and improvements in various benefit programs. Major cost increases in coal, hydroelectric power and other energy sources also occurred during the year.

The effective rate of income tax increased to 41% from 37% in 1971. This reflects the termination of the tax-exempt period on the Sherman Mine in June 1971, offset in part by the reduction of federal income tax rates applicable as of January 1, 1972.

The number of people employed in steelmaking operations increased by 300 to 8,300 employees during 1972.

Net earnings from mining properties were slightly lower than in the previous year.

The looping tower on Dofasco's third electrolytic tinning line stores up to 1,200 feet of steel strip – allowing continuous operation of the line while a new coil is being fed into the system. The $13 million high-speed process has the built-in flexibility for producing not only tinplate, but also chromium-coated steel. It is the first of its kind in Canada.

Despite highly competitive conditions, **operations at National Steel Car continued at a good level** throughout most of the year. An 800 hopper car order received from the Canadian Wheat Board contributed substantially to maintaining high employment levels at National throughout 1972.

Financial Condition and Capital Structure

Working capital increased by $7,424,000 during 1972. Details of the changes are set out on page 15.

The Company's **long term debt was reduced** by $17,742,000. This resulted from the repayment of 9% notes in the amount of $5,400,000, the purchase for cancellation of $1,872,000 in outstanding debentures, and a $10,300,000 reduction in short term notes payable. As term bank credit is available to replace short term notes, these notes have been classified as long term debt.

Under the Company's stock option plan, 59,016 common shares ($1,099,000) were issued during 1972 and 6,500 preferred shares were purchased for cancellation at a cost of $483,000.

Quarterly dividends of 22½¢ per common share were declared and amounted to $14,026,000 for the year. Dividends of $1,040,000 were declared on the 4¾% preferred shares.

The Department of National Revenue has advised that the valuation day prices for Dofasco common and preferred shares are $25 and $74 respectively for shares held at the end of 1971.

$32

Capital Expenditures and Manufacturing

During 1972, Dofasco made **capital expenditures of $29 million** for manufacturing equipment. Iron ore mining capital expenditures totalled $3 million.

Major new facilities included the extension of the coke oven by-product plant, the doubling of tinplate capacity with the completion of a third electrolytic tinning line, expanded product shipping capacity to improve customer service, environmental expenditures for the completion of a hot mill waste water treatment plant and a hydrochloric acid regeneration system.

At Baycoat Limited, a second paint line was completed. The original line underwent a major refit. This will more than double prepainted steel capacity. Dofasco has a 50% interest in Baycoat.

Equipment for the fast changing of hot mill rolls to increase efficiency and production is being installed in the hot mill. Other projects underway include increased boiler facilities for additional steam capacity, additional in-process storage equipment, increased ingot heating facilities, revamping of electrical steel finishing equipment, and a cold mill waste water treatment plant for environmental control.

Major expenditures in the planning stage include a wide cold rolling mill, additional steelmaking capacity, and dock and storage yard extension.

Raw Materials

Dofasco uses approximately 3 million gross tons of iron ore pellets per year. All of this material is now acquired through the Company's ownership interests in the Sherman Mine at Temagami, Ontario; the Adams Mine at Kirkland Lake, Ontario and Wabush Mines at Wabush, Labrador. At full production, the **Company's total share of output from these three mines is 3.1 million gross tons** per year, a portion of which is being sold for a short period to Jones & Laughlin Steel Corporation, the former owners of the Adams Mine. Costs per ton of ore in 1972 at the Adams Mine were significantly less than the high costs associated with the last 5 months of 1971. The additional ore now available because of this acquisition is of prime importance to the Company.

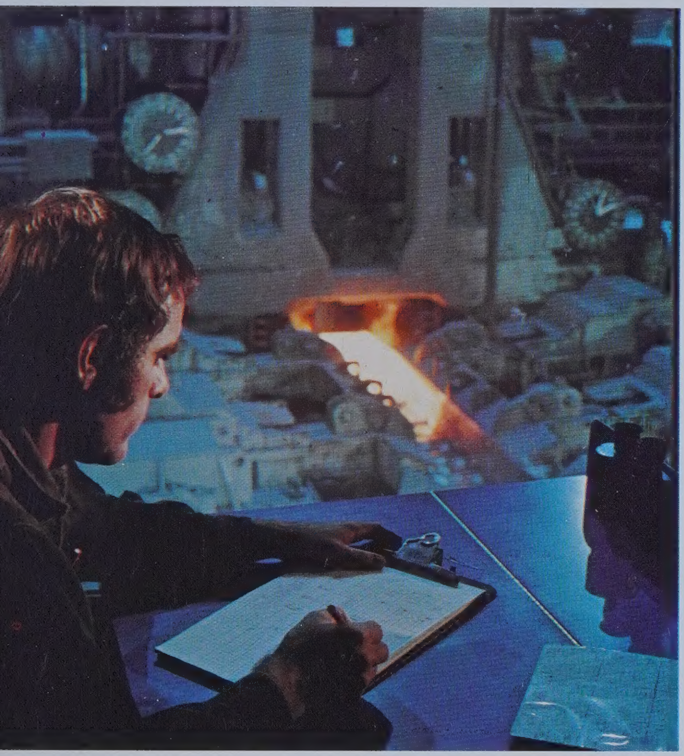
Based on current annual mine production levels, it is estimated that the **presently proven ore reserves** are sufficient to enable production to continue for 25 years at Adams, 28 years at Sherman, and 62 years at Wabush.

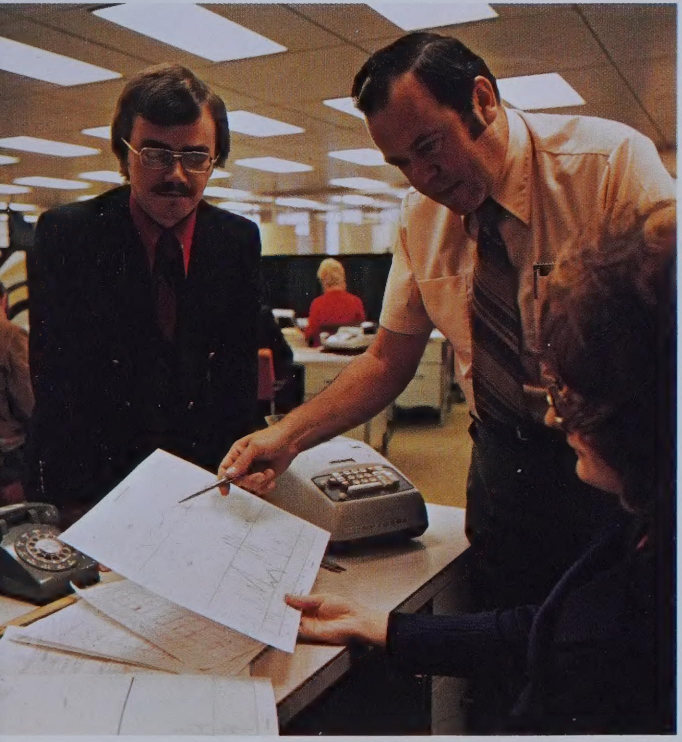
Coal, another vital link in the production of steel, is consumed at an annual rate of 1.8 million net tons. About 70% of this material is provided through long term contracts and the Company's ownership interest in Itmann Coal of West Virginia. As mentioned in last year's report, a 20-year agreement was negotiated in 1972 with Eastern Associated Coal Corp. to supply the Company with 500,000 net tons of coal annually.

Research

For the Research Department, 1972 was a year of continuing effort to improve present manufacturing methods.

Currently, the Company is installing a system for injecting homogenized oil in the blast furnaces. This is the first process of its type to be used in North America. We expect the process will yield the dual benefits of





reduced hot metal costs and reduced air pollution through the substitution of oil for coke.

A program for assessing the quality of coking coal by petrographic analysis is underway.

Methods of improving lime usage in the steelmaking operation were developed.

A process to inhibit the formation of white rust on galvanized steel, which was mentioned in last year's report, has been installed on one of our galvanizing lines, and is ready for commercial trials.

At the blast furnaces, current projects include a program to control alkaline levels in iron ore loadings and a system designed to desulphurize hot metal.

In the area of development research, several of the year's innovations were of particular interest to automobile manufacturers. A new series of alloys is being tested which, if satisfactory, will enable us to supply the high-strength steel required to meet new safety regulations. Basic development work on sheet steel formability continued and the new techniques are now being applied to customer service problems.

The Environment

"In general, the data discloses that the air quality in Hamilton in 1971 shows a remarkable improvement over the conditions which prevailed in 1968 . . ."

This quote is taken from a report issued by the Air Management Branch of the Ontario Ministry of the Environment in August of 1972. Specifically, the report points out that **improvements of approximately 50% have occurred in both dust and iron oxides fallout** during the period 1968 through 1971 in Hamilton's industrial area. **Reductions in the order of 25% have occurred in sulphur dioxide emissions.** Completion of Dofasco's program in conjunction with projects undertaken by other Hamilton industry will result in further improvements in Hamilton's air quality.

During 1972, the Company's pollution abatement program continued, with improvements in both air and water quality. A hot mill water filtration plant went into service in June. Like many new environmental control installations, this plant had start-up problems.

Quality control is essential to good performance. The Company's new monitoring system uses observers (above) for the collection of information on quality during production. This data is tabulated into daily and weekly reports (below) providing immediate feedback for Dofasco's production divisions.

In this case, some structural difficulties were experienced and major repairs were required. The plant will be back in full operation this year and **we expect that hot mill effluents will be significantly below the Ministry of the Environment guidelines.**

A hydrochloric acid regeneration plant to eliminate acid disposal problems is being brought up to full capacity. The plant is designed to virtually eliminate waste acid discharges from our pickle lines. Cold mill effluent problems will be further reduced with the completion in late 1973 of waste treatment facilities currently under construction.

In the oxygen steelmaking division, additional major dust collection facilities were built and are in operation. Improvement of the gas collection system and a new charging and tapping emission system is being engineered.

Other major projects underway include engineering of equipment to eliminate emissions during coke oven unloading and a pilot project to deal with blast furnace casting fumes.

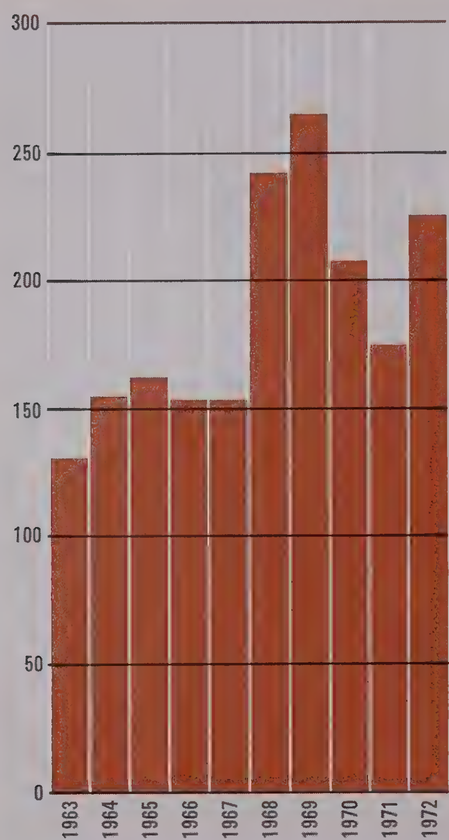
The cost of building and operating pollution control equipment is high. **During 1972, Dofasco's capital expenditures for abatement totalled $8 million.** As a result of new environmental facilities added in 1972, the costs of operating abatement equipment were up by more than 18%, with annual costs in excess of $3 million.

Throughout its pollution abatement program, Dofasco has worked in close cooperation with all government bodies. Currently, the Company's environmental control manager, W. R. Rombough, is also serving as Chairman of the Canadian Steel Industry Advisory Committee. The Committee was set up to work with the federal government in setting guidelines for emission controls.

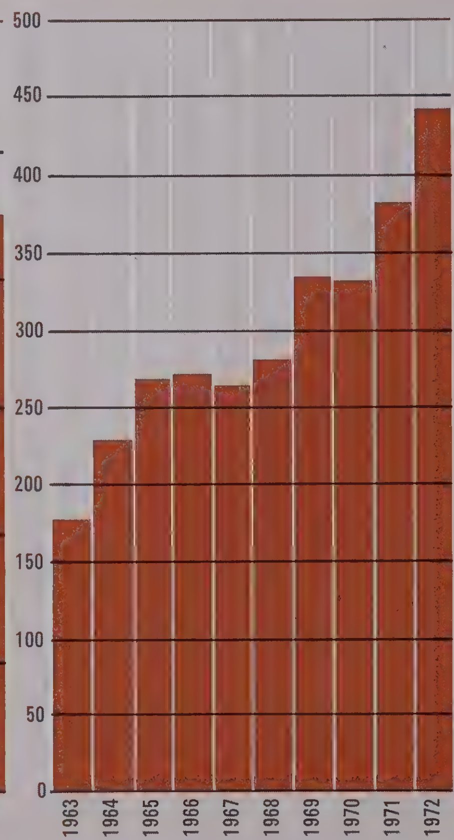
During 1972, Baycoat Limited installed a new paint line doubling the plant's painting capacity. The company, Canada's largest producer of pre-painted steel, installed the line at a cost of $2½ million. The advanced equipment includes a centralized panel allowing two operators to control production processes formerly requiring eight manual operations.

The development of human resources is an essential part of a company's success. In addition to Dofasco's supervisory and management training programs, the Company offers apprenticeship training for a wide range of technical skills including a 5-year course in instrumentation for the development and maintenance of the Company's many production monitoring instruments.

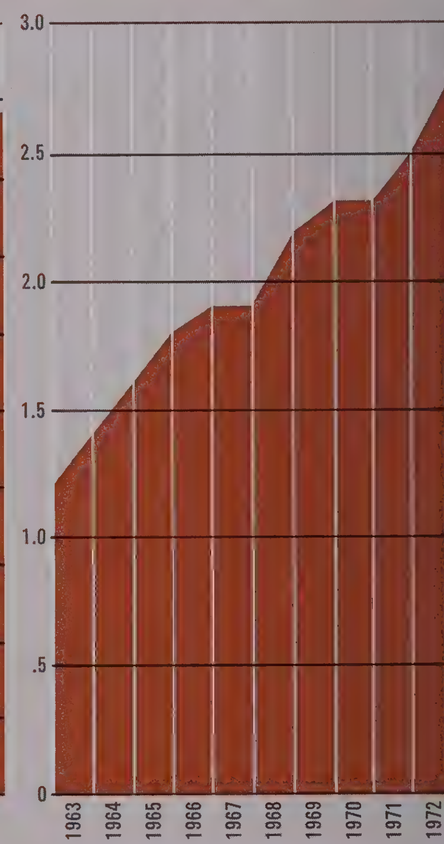
Technicians in Dofasco's Research Department test the effectiveness of different fluxing materials in an experimental oxygen furnace.



NET INCOME
(Cents per common share)



ANNUAL SALES
(In millions of dollars)



INGOTS AND CASTING PRODUCTION
(In millions of net tons)

Auditors' report

To the Shareholders of
Dominion Foundries and Steel, Limited:

We have examined the consolidated balance sheet of Dominion Foundries and Steel, Limited as at December 31, 1972 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent in all material respects with that of the preceding year.

Hamilton, Canada,
January 22, 1973.

CLARKSON, GORDON & CO.
Chartered Accountants

Consolidated statement of income and retained earnings for year ended December 31, 1972

(with comparative figures for 1971—in thousands of dollars)

		1972		1971
INCOME				
Sales		$443,775		$380,723
Cost of sales (excluding the following items)	$334,255		$295,011	
Depreciation	32,922		28,764	
Allotted for employees' profit sharing	6,774		5,429	
Interest on long term debt (less discount on purchase of debentures)	9,053	383,004	8,245	337,449
Income from operations		60,771		43,274
Income from investments (including corporate joint ventures, 1972—$582; 1971—$660)		852		1,145
Income before income taxes		61,623		44,419
Income taxes		25,500		16,400
Net income for year		$ 36,123		$ 28,019
Net income per common share (after preferred dividends)		$2.25		$1.74
RETAINED EARNINGS				
Balance at beginning of year		$231,979		$218,919
Add:				
Net income for year	$ 36,123		$ 28,019	
Discount on preferred shares purchased for cancellation	167	36,290	80	28,099
		268,269		247,018
Deduct dividends declared:				
Preferred shares	1,040		1,061	
Common shares (1972 and 1971—90¢)	14,026	15,066	13,978	15,039
Balance at end of year		$253,203		$231,979

See accompanying notes to consolidated financial statements

Consolidated balance sheet, December 31, 1972

(with comparative figures at December 31, 1971—in thousands of dollars)

	1972	1971
ASSETS		
Current:		
Cash	$ 6,216	$ 8,519
Investment in short term securities at cost and accrued interest (approximating market value)	10	512
Accounts receivable	66,606	46,565
Inventories (note 1)	104,212	97,948
Prepaid income taxes	—	2,380
Total current assets	177,044	155,924
Fixed (note 2):		
Land, buildings and equipment at cost	733,450	702,283
Less accumulated depreciation	295,944	263,805
	437,506	438,478
Investments:		
Corporate joint ventures at equity (note 3)	7,177	5,164
Shares and advances in coal companies at cost	4,164	435
	11,341	5,599
Sundry Assets (note 8)	2,672	2,535
	$628,563	$602,536

On behalf of the Board:

H. N. Bawden, Director

F. H. Sherman, Director

	1972	1971
LIABILITIES		
Current:		
Bank indebtedness	$ 6,256	—
Accounts payable and accrued charges	43,575	$ 48,818
Amounts payable for employees' profit sharing	6,774	5,429
Income and other taxes payable	13,505	2,342
Dividends payable	3,768	3,763
Current requirements on long term debt (note 4)	246	76
Total current liabilities	74,124	60,428
Long Term Debt (note 4)	112,963	130,705
Deferred Income Taxes	112,600	104,200
Shareholders' Equity (notes 5 and 6):		
Preferred shares	21,653	22,303
Common shares	54,020	52,921
Retained earnings	253,203	231,979
Total shareholders' equity	328,876	307,203
	$628,563	$602,536

See accompanying notes to consolidated financial statements

Notes to consolidated financial statements, December 31, 1972

(1) Inventories

	1972	1971
Materials and supplies	$ 50,745,000	$ 47,722,000
Work in process and finished products	53,467,000	50,226,000
	$104,212,000	$ 97,948,000

Inventories are valued at the lower of average cost and realizable value.

(2) Fixed assets

	1972	1971
Manufacturing facilities and equipment at cost	$602,039,000	$573,401,000
Iron ore projects at cost	131,411,000	128,882,000
	733,450,000	702,283,000
Less accumulated depreciation	295,944,000	263,805,000
	$437,506,000	$438,478,000

The unexpended portion of authorized capital projects at December 31, 1972 amounted to approximately $35,000,000.

(3) Participation in joint ventures

The Company has an undivided interest in two unincorporated joint ventures—a 90% interest in the Sherman Mine and a 16.4% interest in Wabush Mines. The Company's share of the assets, liabilities and expenditures of these joint ventures is included in the accompanying financial statements under the appropriate captions.

The Company also participates in several corporate joint ventures. In 1972 the Company adopted the equity method of accounting for these investments. As the change does not affect the Company's income or financial position materially, it was not applied retroactively.

(4) Long term debt

	1972	1971
6⅜% debentures maturing 1974	$ 9,246,000	$ 10,076,000
6½% debentures maturing 1987	31,263,000	32,305,000
9% debentures maturing 1991	50,000,000	50,000,000
9% notes repaid during 1972	—	5,400,000
Short term notes payable (see below)	22,700,000	33,000,000
Outstanding at December 31	113,209,000	130,781,000
Less current requirements	246,000	76,000
	$112,963,000	$130,705,000

Requirements within the next five years (excluding short term notes referred to below) are as follows:

1973—$ 246,000; 1974—$9,000,000; 1975—$1,023,000;
1976—$2,890,000; 1977—$2,890,000.

Revolving bank credit (none of which is being used at December 31, 1972) is available to the Company as follows:

(a) $50,000,000 Canadian credit, convertible at annual intervals to December 31, 1974 into a five-year term loan bearing interest at ½ of 1% in excess of the prime commercial rate.

(b) $20,000,000 U.S. credit, terminating December 31, 1976.

As the revolving bank credit is available to replace the short term notes, these notes have been classified as long term debt. As one of the terms of borrowing in the short term money market, the Company intends not to use revolving bank credit to the extent of the total amount of short term notes outstanding.

(5) Preferred shares

Authorized—500,000 preferred shares of the par value of $100 each, issuable in series.

Issued —250,000 4¾% cumulative preferred shares, series A, redeemable at the Company's option at a premium of $3 to June 1, 1973 and reduced amounts thereafter, of which 216,525 shares are outstanding (1971—223,025).

To December 31, 1972, 33,475 shares have been purchased for cancellation (including 6,500 shares during 1972 for $483,000) as a result of which the Company has met its obligations to that date with respect to the purchase fund requirements. In compliance with Section 62 of the Canada Corporations Act, retained earnings of $3,348,000 are designated as capital surplus.

(6) Common shares

Authorized—25,000,000 common shares of no par value.

Issued and outstanding—15,605,000 shares (1971—15,545,984).

A plan was adopted in 1964 authorizing employee stock options, which options expire April 24, 1974 covering a maximum of 480,000 common shares. To December 31, 1972 251,804 common shares have been issued under this plan (including 59,016 shares issued during 1972 for cash, $1,099,000).

At December 31, 1972 the following options to purchase an aggregate of 141,626 common shares were outstanding:

	Held by	
Option price per share	Directors and officers	Other employees
$18	74,352	44,573
18⅝		2,380
20⅝		3,592
20½		1,248
21¼		2,986
21⅜		3,098
22⅞		1,792
25		3,881
25¼		3,724

No options are held by directors who are not full time employees. The disclosure of fully diluted earnings per share, derived from the possible exercise of outstanding stock options, has been omitted as the effect is immaterial.

(7) Retirement plans

The companies have funded retirement plans covering substantially all of their employees. Costs charged against income in the year include amounts for current and past service.

The estimated unfunded past service costs, not included in the accompanying financial statements at December 31, 1972 were $8,400,000 and these will be paid and charged against income over periods not exceeding seventeen years.

(8) Statutory information

Expenses for 1972 include remuneration of directors and officers as follows:

(a) fees of twelve directors	$ 39,000
(b) remuneration of thirteen officers (including five directors)	775,000
Total remuneration of directors and officers	$814,000

The above includes a total of $1,250 paid as directors' fees by the wholly-owned subsidiary, National Steel Car Corporation, Limited.

Sundry assets include unamortized debenture issue expenses, $663,000.

No statement is made of the proportions in which sales are divided among the businesses carried on by the Company and its subsidiaries since there is pending a court application for an order that no such statement is necessary.

Consolidated statement of source and application of funds for year ended December 31, 1972

(with comparative figures for 1971—in thousands of dollars)

	1972	1971
SOURCE OF FUNDS:		
Operations		
Net income for year	$ 36,123	$ 28,019
Depreciation	32,922	28,764
Deferred income taxes	8,400	9,450
Funds from operations	77,445	66,233
Common shares issued for cash	1,099	908
Increase in long term debt:		
Proceeds from debenture issue (net)	—	49,300
Increase in short term notes payable	—	27,000
Other changes (net)	—	102
	78,544	143,543
APPLICATION OF FUNDS:		
New facilities and equipment		
Manufacturing	28,907	52,029
Iron ore projects	3,043	32,590
Reduction in long term debt—bank indebtedness	—	25,000
—debentures and notes payable	17,742	1,825
Preferred shares purchased for cancellation (less discount)	483	280
Dividends to shareholders	15,066	15,039
Increase in investments—corporate joint ventures	2,013	35
—loan to Eastern Associated Coal Corporation	3,729	—
Other changes (net)	137	—
	71,120	126,798
INCREASE IN WORKING CAPITAL	7,424	16,745
WORKING CAPITAL AT BEGINNING OF YEAR	95,496	78,751
WORKING CAPITAL AT END OF YEAR	$102,920	$ 95,496

See accompanying notes to consolidated financial statements

Ten year summary of production and financial data

	1972	1971	1970
Production of ingots and castings — net tons*	2,773	2,468	2,322
Sales*	$443,775	$380,723	$331,658
Depreciation*	$ 32,922	$ 28,764	$ 26,246
Net income*	$ 36,123	$ 28,019	$ 33,102
Net income per common share	$ 2.25	$ 1.74	$ 2.07
Net income — percent of sales	8.1%	7.4%	10.0%
Net income — percent of average capital employed	6.6%	5.5%	7.4%
Net income — percent of average common shareholders' equity	11.8%	9.7%	12.2%
Net worth per common share	$ 19.69	$ 18.33	$ 17.48
Dividends declared — per common share	$ 0.90	$ 0.90	$ 0.87½
— per preferred share	$ 4.75	$ 4.75	$ 4.75
Total dividends declared*	$ 15,066	$ 15,039	$ 14,632
Income reinvested in the business*	$ 21,057	$ 12,980	$ 18,470
Working capital*	$102,920	$ 95,496	$ 78,751
Capital expenditures — manufacturing*	$ 28,907	$ 52,029	$ 69,873
Expenditures on mining properties*	$ 2,570	$ 32,916	$ 2,735
Cash flow*†	$ 77,445	$ 66,233	$ 60,348
Cash flow per common share	$ 4.96	$ 4.26	$ 3.89
Long term debt*	$112,963	$130,705	$ 80,530
Average number of employees	9,700	9,300	8,600
Number of holders of common shares	16,629	17,958	19,511
Percentage of shares held in Canada	96.2%	95.7%	95.0%

*in thousands.

†Cash flow—net income plus depreciation and deferred income taxes in the year.

1969	1968	1967	1966	1965	1964	1963
2,279	2,180	1,879	1,877	1,785	1,584	1,391
$332,610	$280,128	$265,083	$271,086	$268,347	$229,194	$177,314
$ 26,387	$ 24,570	$ 20,465	$ 17,504	$ 14,548	$ 13,114	$ 11,821
$ 41,991	$ 38,374	$ 24,566	$ 24,557	$ 25,609	$ 23,457	$ 19,741
$ 2.64	$ 2.41	$ 1.52	$ 1.52	$ 1.61	$ 1.53	$ 1.29
12.6%	13.7%	9.3%	9.1%	9.5%	10.2%	11.1%
10.0%	9.3%	6.3%	7.1%	8.9%	10.0%	9.9%
17.2%	17.8%	12.4%	13.3%	15.5%	16.3%	15.4%
16.29	$ 14.43	$ 12.71	$ 11.83	$ 10.91	$ 9.90	$ 8.83
$ 0.80	$ 0.70	$ 0.60	$ 0.60	$ 0.57½	$ 0.48¾	$ 0.41¼
$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 3.17	—	—
$ 13,457	$ 11,931	$ 10,416	$ 10,425	$ 9,635	$ 7,485	$ 6,302
28,534	$ 26,443	$ 14,150	$ 14,132	$ 15,974	$ 15,972	$ 13,439
83,392	$ 91,510	$ 79,337	$ 69,949	$ 76,767	$ 52,769	$ 38,368
43,016	$ 18,449	$ 22,748	$ 56,906	$ 38,244	$ 37,691	$ 18,114
3,915	$ 3,499	$ 23,320	$ 27,494	$ 6,816	$ 15,969	$ 7,775
60,872	$ 62,583	$ 57,972	$ 61,073	$ 59,217	$ 50,228	$ 35,862
3.93	$ 4.05	$ 3.76	$ 3.97	$ 3.85	$ 3.27	$ 2.35
58,100	$ 68,624	$ 86,881	$ 79,436	$ 52,444	$ 55,953	$ 35,156
8,600	7,800	8,100	8,400	8,600	7,600	5,900
20,183	20,444	19,696	19,805	18,818	15,924	13,060
94.2%	93.7%	92.7%	90.5%	90.0%	90.1%	90.6%

Outlook

With the Canadian economy continuing on a path of economic expansion into 1973, the demand for Dofasco's products is expected to remain strong.

Increases in consumer spending in the order of 9% to 10% over 1972, coupled with business spending on plants and equipment, is expected to improve steel demand in Canada by approximately 6.5% this year. Global demand for steel is steady and no increased pressure from imports of flat rolled products into Canada is expected during 1973, with offshore producers enjoying buoyant domestic markets.

Small gains were made during 1972 in the residential construction industry – a large user of galvanized steel. Continued gradual improvement in this market is expected. Housing starts reached a record high of 250,000 units in 1972, and are expected to remain close to these levels. The completed homes create a substantial base for flat rolled steel demand generated by increased appliance and other consumer goods sales.

Dofasco's experimental townhouse condominium development – Bellwood Heights – was completed in early 1972. As mentioned in last year's report, costs exceeded estimates. A detailed study is nearing completion and we expect there could be new products developed as a result of the project.

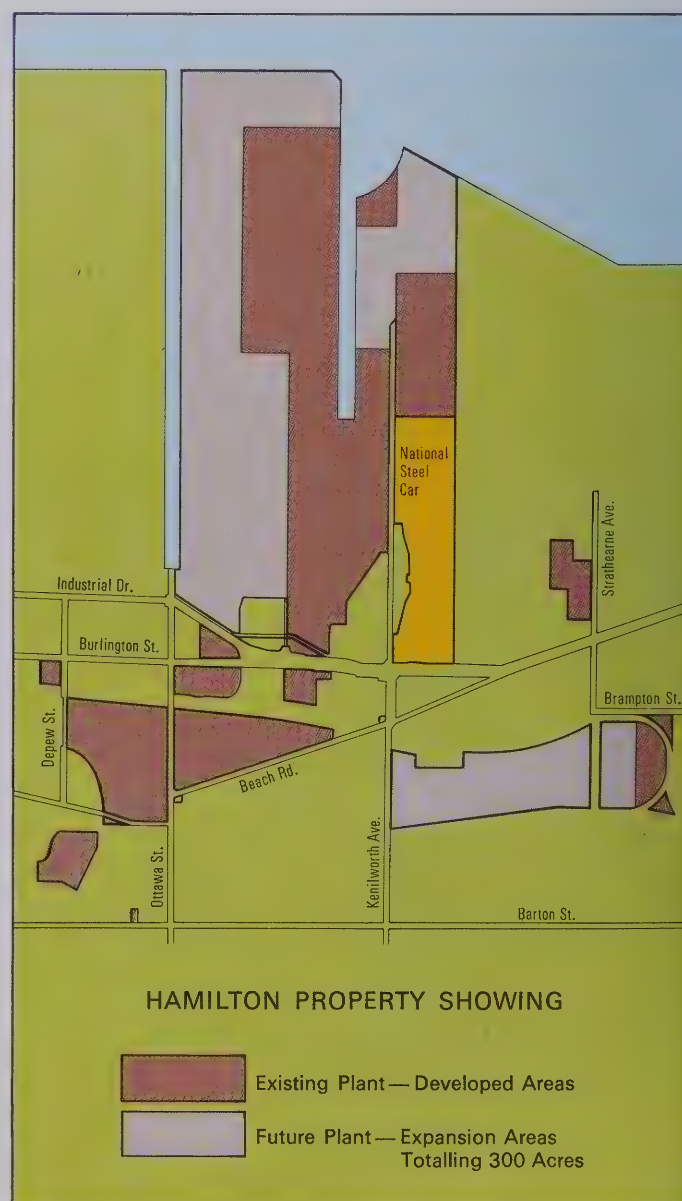
The strength of consumer demand should be supported by the increases in personal income in 1972. Department and retail stores showed significant advances in sales in the latter part of the year.

The automotive industry enjoyed considerable growth during the past year. Motor vehicle production during 1972 was up by 7.6%. Shipments of flat rolled steel to the automotive industry, particularly hot rolled material, are expected to continue to increase during 1973. The outlook for steel demand in the automotive sector assumes no adverse changes will take place in the Canada/United States auto trade agreement.

Grain exports during 1972, coupled with improved prices for wheat, stimulated the agricultural machinery markets with most manufacturers recording sales increases of close to 25% during the period January through October, 1972. Demand for steel from this sector is expected to remain strong throughout this year.

Sales of Dofasco tinplate experienced steady growth during 1972. We expect this growth to continue throughout 1973. However, the beverage container

The main filtration room in Dofasco's hot mill water filtration plant features two giant filter tanks each containing four separate compartments. The new facilities are designed to clean waste waters used in hot rolling operations.




FILTERED WATER

market is currently being threatened by possible legislation. Details are discussed in the President's Report.

After many initial start-up problems, 48″ pipe has been manufactured at the new facilities of International Portable Pipe Mills Ltd. Trial runs of 42″ pipe are currently underway. Although most major orders for large diameter pipe for 1973 have been placed, we look for increased participation in this market in the future.

Public transportation is a growing problem and Dofasco is investigating ways of continuing to serve this market. The Company has cooperated with MLW-Worthington and Alcan in developing a prototype coach and locomotive for a new high-speed intercity passenger train. The locomotive is currently under intensive testing by the Canadian National Railways.

The outlook for National Steel Car for 1973 is good.

With increased sales expected in virtually every sector, the outlook is excellent and Dofasco should be operating at or near capacity throughout 1973.

Preventive medicine has always been a major concern of Dofasco's Medical Department. An excellent example is the current research study sponsored by Dofasco and McMaster University's Medical Centre. One thousand Dofasco employees volunteered to undergo a series of electrocardiographs and blood tests in the study designed to investigate the relationship between blood pressure, fat levels in the blood, and heart disease.

Employees/Government/Community

The historical measure of a company's success is its financial results, but this is not the only measure. As we move toward the 80's, the most successful companies will be those who can marry their goals to the goals of the society they serve. In order to be prosperous in the future, the Company will not only have to produce goods and services which are acceptable to the marketplace, but will also be judged on its ability to attract and keep good employees – on its ability to blend its operations with the environment – and on its contribution toward helping society meet its social goals. We think that your Company's record for these non-financial criteria has been good, and our intent is to make it better.

EMPLOYEE RELATIONS

Profit Sharing

In 1938, we established our profit sharing plan. It was founded to allow employees to share in the profits that they helped earn and at the same time provide financial security for their retirement years. At a recent New Fund Member's Night, F. H. Sherman, President and Chief Executive Officer, reaffirmed Dofasco's commitment to profit sharing. "We believed in profit sharing in 1938 and we believe in it now. While government legislation may change the form of profit sharing, our commitment to the idea will not change . . ."

We are continuing our efforts to update and improve the Fund. Revisions incorporating many significant changes have been approved by the Department of National Revenue. A supplementary retirement income plan has also received government approval. This plan is designed to complement existing retirement benefits from the Fund.

Education

Dofasco was one of the first Canadian companies to offer 100% tuition refunds to employees participating in extension education. During the past two years, some 1,340 of our employees have taken part in some form of training, either in-plant or outside. This represents 17% of the total work force.

Education courses range from extension education to in-plant apprenticeship training including electrical, mechanical, instrumentation, refrigeration and masonry trades.

Policies for leaves of absence for educational purposes allow employees to return to school on a full-term basis without pay but without loss of seniority.

Recreation

In 1972, Dofasco received the award from the National Industrial Recreation Association for the best recreation program among the Association's 400 North American member companies during 1971. The Company program encompasses over 35 wide-ranging recreation activities available to employees and their families. In 1972, over 4,000 participated in these activities.

It has been the Company's intention for some time to provide employees with a centralized recreation complex. In late 1972, Dofasco approved the acquisition of a 50-acre site for the use of employees and their families. The property will be developed over a number of years.

Employee Benefits

In keeping with the policy of providing the most up-to-date medical and social benefits, the Company introduced as of January 1, 1973, a plan to provide dental coverage for all employees and their dependents. Improvements were also made in weekly indemnity benefits, disability income benefits, group life insurance, and our major medical plan. The portion of our health insurance program previously paid by employees is now being paid by the Company.

Suggestion System

During 1971, we received the National Association of Suggestion Systems' Performance Award. Our employees placed first with the best suggestion record in the 19-company basic metal manufacturers category. This section is made up of many of the major steel manufacturers in North America.

GOVERNMENT

The need for improved business-government relations is obvious when we consider the important developments that have taken place in recent years. A large and increasing share of the national income is falling under the dominance of the public versus the private sector. Governments' premature overreaction to small pressure groups not representative of the overall public interest and their apparent attitude of "control for control's sake" are sources of increasing concern. Government-business relations are difficult enough because of the

sheer volume of legislation and sometimes the lack of coordination between various government departments.

Our attitude to proposed legislation is based on the principle that change is desirable in some areas and that fair and just legislation should be supported. We have an equal responsibility to make our views known when we believe that new legislation and regulations are not in the long-term economic and social interest of the community.

Dialogue with government is often through the medium of written submissions. However, we believe direct consultation with government officials is most desirable as better understanding of each other's problems will result in improved legislation.

In 1972, our representations to the various levels of government included comments on proposed changes in legislation relating to labour relations, competition policy, tax reform, tariffs, corporate law, the environment, safety and pension benefits.

The proposed fast write-off of the capital cost of new manufacturing equipment and the lower rate of taxes on manufacturing income earned after December 31, 1972 are welcome changes. In the steel industry, it takes several years to plan, build and bring into full production major manufacturing equipment, and in so doing, create jobs. At the same time, it is vital for the government to develop long-range fiscal policy that will permit this type of planning. Cooperation between government and business is essential in order to meet the mutually desirable goals of full employment and a healthy economy.

COMMUNITY RELATIONS

The Company has encouraged and will continue to encourage its employees to become actively involved in the affairs of the community. Dofasco also provides, wherever possible, the means for this involvement. Our people spend hundreds of hours of their own and company time supporting worthwhile organizations. During 1972, several took advantage of a policy recently introduced that provides for leaves of absence for employees running for political office. Six Dofasco employees were elected to municipal office during the year.

Corporate involvement includes substantial financial support for a wide range of activities including medical research, youth projects, cultural, social and community programs. Educational institutions are supported by means of scholarships and building fund donations.

The Company has for years followed the practice of hiring summer students as replacements for staff during peak vacation periods. Besides providing an opportunity for the students to acquire business experience and earn money for their further education, it allows as many full-time employees as possible to take their vacation in the summer period.

We believe that with the rapidly growing demand for steel, the land we have available for expansion, capable staff and a sound financial condition, we are in a good position to face the future with confidence. Given political and economic stability that will encourage growth, we can get profit margins back up to the more satisfactory levels of the 60's.

Minor hockey is one of 35 activities in Dofasco's award-winning recreation program.

Dofasco's Profit Sharing Plan, organized in 1938, was founded on the philosophy that employees should share in the profits they helped earn and at the same time, to provide for financial security during their retirement years. New Fund Members' Nights provide an opportunity for those joining to meet and discuss details of the Fund's operations informally, with members of management. Here, R. Ross Craig, Executive Vice-President, Commercial compares notes with some of the new members during one of last year's gatherings.


MUELLER
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Dominion Foundries and Steel, Limited

		Percentage Ownership
SUBSIDIARY	National Steel Car Corporation, Limited, Hamilton, Ontario*	100.0%
MINING INTERESTS	Adams Mine, Kirkland Lake, Ontario*	100.0%
	Sherman Mine, Temagami, Ontario*	90.0%
	Wabush Mines,* comprising: Scully Mine, Wabush, Newfoundland Arnaud Pellets, Pointe Noire, Quebec	16.4%
	Kimberley Ventures, Australia	13.3%
	Bandalup Ventures, Australia	11.4%
	Itmann Coal Company, West Virginia†	9.0%
CORPORATE JOINT VENTURES	Baycoat Limited, Hamilton, Ontario	50.0%
	International Portable Pipe Mills Ltd., Alberta	45.1%
	Arnaud Railway Company, Quebec	16.4%
	Knoll Lake Minerals Limited, Newfoundland	9.5%
	Northern Airport Limited, Newfoundland	8.2%
	Northern Land Company Limited, Newfoundland	8.2%
	Twin Falls Power Corporation, Limited, Newfoundland	2.8%
	Wabush Lake Railway Company, Limited, Newfoundland	16.4%

TRANSFER AGENTS AND REGISTRARS

National Trust Company, Limited—Toronto, Montreal, Vancouver, Winnipeg, Calgary

Canada Permanent Trust Company—Halifax

The Bank of Nova Scotia Trust Company of New York—New York

*Ownership interest consolidated in Financial Statements

†Included under "Shares and Advances in coal companies" in Financial Statements

"...our product is steel
our strength is people"

DOFASCO